BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2023-388-E

In the Matter of:	)	
	)	**DIRECT TESTIMONY OF**
Application of Duke Energy Carolinas, LLC	)	**LAWANDA JIGGETTS**
For Authority to Adjust and Increase its	)	**FOR**
Electric Rates and Charges	)	**DUKE ENERGY CAROLINAS,**
	)	**LLC**

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.

A. My name is LaWanda Jiggetts, and my business address is 410 South Wilmington Street, Raleigh, North Carolina 27601. I am a Rates & Regulatory Strategy Manager, employed by Duke Energy Carolinas, LLC ("DEC" or the "Company").

Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS ROLE?

A. My responsibilities include providing rates and regulatory support for both DEC and Duke Energy Progress, LLC ("DEP"), and my duties include the development of cost of service studies and quarterly financial reports for DEP in both retail jurisdictions. In addition, I am responsible for providing regulatory support for retail rate initiatives, including retail rate cases or other significant rate initiatives for DEC and DEP.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Virginia with a Bachelor of Science degree in Commerce with a concentration in Accounting. I received my Masters in Business Administration from Meredith College in Raleigh. From September 1997 through November 2002, I worked as an auditor with PricewaterhouseCoopers in Raleigh. I joined Duke Energy Corporation ("Duke Energy") (formerly Progress Energy) in November 2002. I have had various roles in the Accounting Department during my tenure with the Company including roles in SEC Reporting and Analysis, Financial Reporting and Consolidations, Wholesale Contracts and Inventory Accounting, and Fuel Accounting. I joined the Rates and Regulatory Strategy group in September 2015.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?

A. No, but I have provided testimony on behalf of DEP in various regulatory dockets in North Carolina over the last several years.

Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES AND BOOKS OF ACCOUNT OF DEC?

A. Yes. The books of account of DEC follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to discuss the results of DEC's operations under present rates on the basis of an adjusted historical test period using the twelve-month period ended December 31, 2022 ("Test Period"). I discuss the additional revenue required as a result of the cost of service based on the pro forma costs in the Test Period. I also discuss several pro forma adjustments to the Company's Test Period operating expenses and rate base. I provide the capital structure used in developing the revenue requirements in this case. In addition, I discuss DEC's proposal to mitigate the rate increase to customers.

Finally, I discuss the Company's request for end-of-life nuclear reserves and explain the accounting requests the Company is making in this case.

Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY.

A. The additional base rate revenue requirement requested in this proceeding is approximately $323 million based on a proposed capital structure of 53% equity and 47% debt, and a return on common equity of 10.5%. The Company is proposing a mitigant to reduce the rates customers will pay in the first two years once rates approved in this proceeding are in effect. The Company is proposing the acceleration of the return of certain tax change benefits through the Excess Deferred Income Tax ("EDIT") rider, which will partially offset the requested revenue increase by approximately $84 million annually for two years. Accordingly, the Year 1 and Year 2 net revenue increase will be approximately $239 million. Starting in Year 3, the accelerated EDIT flowback will end and the revenue increase in that year will be $323 million.

The increase in the revenue requirement proposed in this case includes amounts relating to end-of-life nuclear reserves, which the Company is requesting to establish in this case. In addition, I request authorization to continue deferring costs related to compliance with coal ash regulations beyond the December 31, 2023 cut-off in this case. The Company is also requesting an accounting order for approval to defer certain benefits, associated with the Company's pursuit of opportunities under the Inflation Reduction Act ("IRA"), net of costs associated with obtaining and maximizing the value of the various tax benefits.

Q. DOES YOUR TESTIMONY INCLUDE ANY EXHIBITS?

A. Yes. I have included four exhibits. Jiggetts Direct Exhibit 1 sets forth the operating results under current and proposed rates. Jiggetts Direct Exhibit 2 shows a summary of proposed revenue adjustments. Jiggetts Direct Exhibit 3 shows the calculation of the proposed changes to the EDIT rider to accelerate the return of certain tax change benefits to customers. Jiggetts Direct Exhibit 4 provides details on the accounting and pro forma adjustments presented in Jiggetts Direct Exhibit 1, Pages 3 through 8.

Q. WERE JIGGETTS DIRECT EXHIBITS 1 THROUGH 4 PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes. All four exhibits were prepared by me or under my direction and supervision.

II. <u>DETERMINING THE REVENUE REQUIREMENT</u>

Q. WHAT IS THE REVENUE REQUIREMENT, AND HOW DID DEC CALCULATE IT?

A. The revenue requirement represents the annual revenues necessary for the Company to recover its operating expenses (including depreciation and taxes) and provide its investors with a fair rate of return on the investments in rate base. DEC determined its operating costs by identifying depreciation and amortization expense, operations and maintenance ("O&M") expense, fuel expense, taxes, and other expenses charged to utility operations and recorded in its accounting records for the Test Period. The amount of rate base is determined by adding the year-end balances in the Company's accounting records of plant in service, accumulated depreciation, materials and supplies (including fuel inventory) and components of working capital, including certain regulatory assets and liabilities, less deferred taxes and operating reserves. Next, a cost of service study is prepared that allocates and assigns these actual Company operating costs and rate base amounts to determine the per book cost for providing electric service to the Company's South Carolina retail operations. Witness Janice Hager discusses in greater detail the allocation process and methodologies used to develop these amounts.

Following the cost of service study, the actual Test Period expense and rate base levels, as allocated to the South Carolina retail operations, were adjusted for known and measurable changes, as described below and in the testimony of Witnesses Morgan Beveridge and Bryan Walsh. The Company made certain accounting and pro forma adjustments to actual operating income and rate base for the Test Period to reflect known and measurable changes to (i) normalize for abnormal events; (ii) annualize part year recurring effects to a full year effect; and (iii) show actual changes in costs, revenues or the cost of the Company's property used and useful, or to be used and useful within a reasonable time after the Test Period, in providing service.

After the determination of operating expenses and rate base for the Company's South Carolina retail operations, rate base is split between the Company's debt investors and equity investors using the Company's proposed capital structure of 53% equity and 47% debt. Then, the annual cost of debt is calculated. The income available for the Company's equity investors is determined by subtracting the cost of debt from the operating income produced by the current revenues received from South Carolina retail customers less operating expenses. Finally, the required revenue increase necessary to produce the requested equity return on the amount of the equity invested in rate base is determined.

Jiggetts Direct Exhibit 1 sets forth the rate base, operating revenues, operating expenses, and operating income the Company earned during the Test Period and the adjusted amounts the Company supports for use in calculating its proposed revenue requirement.

III. RESULTS OF OPERATIONS UNDER EXISTING AND PROPOSED RATES

Q. PLEASE DESCRIBE JIGGETTS DIRECT EXHIBIT 1 TO YOUR TESTIMONY.

A. Jiggetts Direct Exhibit 1 sets forth the operating results and data required by Commission Reg. 103-823 regarding operating income, calculation of additional revenue requirement, accounting adjustments, and rate base information. The operating results are based on the Test Period noted above, using the twelve months ending December 31, 2022, with appropriate adjustments. This information is also shown on Pages 1 through 13 of Exhibit D of the Company's Application.

Q. PLEASE EXPLAIN WHAT IS PRESENTED ON PAGE 1 OF JIGGETTS DIRECT EXHIBIT 1 ENTITLED "OPERATING INCOME FROM ELECTRIC OPERATIONS."

A. Page 1 summarizes the Company's operating income from electric operations for the Test Period both for total Company operations and South Carolina retail operations before the necessary accounting adjustments. It also shows the Company's operating income from electric operations for South Carolina retail operations after the necessary accounting adjustments and the rate of return on South Carolina retail rate base the Company would earn in the Test Period after reflecting those adjustments.

Columns 1 and 2 set forth the actual operating revenues, expenses, and rate base from the per book cost of service study for the Company and for its South Carolina retail jurisdiction, respectively.

Column 3 summarizes the accounting adjustments allocated to South Carolina retail operations necessary to reflect a representative level of operating income and rate base based on known changes in costs. These adjustments are shown on Jiggetts Direct Exhibit 1, Pages 3 through 8 and are explained later in my testimony and in the testimony of Witnesses Beveridge and Walsh.

Column 4 shows adjusted South Carolina retail operations.

Column 5, Line 1 shows the additional base rate revenue requested in this proceeding of approximately $323 million. This is the increase in revenues justified as necessary to cover the Company's cost of service, including a rate of return on common equity of 10.5% as discussed in the testimony of

Witnesses Jim Coyne and Chris Bauer. Column 5 also shows the effect of the revenue increase on general taxes, including the Commission regulatory fee and income taxes. When combined with the proposed increase in amounts refunded through the EDIT rider of approximately $84 million, as shown in Jiggetts Direct Exhibit 2 and described later in my testimony, the net increase requested is approximately $239 million.

Column 6, Line 14 shows adjusted operating income after the proposed increase in revenues. Column 6, Line 15 shows the adjusted South Carolina retail rate base. Dividing operating income by rate base produces the 7.71% overall rate of return that the Company is justifying in this case, as shown on Column 6, Line 16.

Q. PLEASE EXPLAIN WHAT IS PRESENTED ON PAGE 2 OF JIGGETTS DIRECT EXHIBIT 1 ENTITLED "CALCULATION OF ADDITIONAL REVENUE REQUIREMENT."

A. Page 2 sets forth the calculation of the additional revenue requirement necessary to produce a 10.5% rate of return on common equity using the format required by Commission Reg. 103-823. To develop this figure, the South Carolina retail rate base was allocated to its capital source components of long-term debt and common equity. This allocation was based on the capitalization ratios of 47% long-term debt and 53% common equity, which is the Company's targeted capital structure that the Commission approved in Order No. 2019-323, issued in Docket No. 2018-319-E (DEC's last general rate case). Witness Bauer also comments in his testimony that the 53% equity ratio will help enable access to capital at reasonable rates.

The amount of operating income needed to cover interest applicable to South Carolina retail rate base was computed using the embedded cost of long-term debt rate. This amount is shown in Columns 4 and 7 on Line 1. Operating income needed to cover long-term debt interest, shown in Columns 5 and 8 on Line 1, was deducted from total operating income, shown in Column 5 on Line 3, to derive operating income remaining for common equity at present rates as shown in Column 5 on Line 2.

Applying the 10.5% rate of return on common equity to that portion of the South Carolina retail rate base financed by common equity, shown in Column 6, Line 2 produces an operating income requirement for common equity as shown in Column 8, Line 2.

The total operating income requirement shown in Column 8, Line 3 is the sum of the requirements for long-term debt and common equity. Comparing the operating income requirement to the operating income before the proposed increase in Column 5, Line 3 results in the additional operating income requirement shown in Column 8, Line 7 after considering the impact of customer growth. To realize this additional operating income, the Company must collect in revenues the increase in the license fee at a rate of 0.3% ($3 for each $1,000 of gross receipts), the public utility assessment fee at a rate of 0.21%, state income taxes at a rate of 5%, and federal income taxes at a rate of 21%. The additional operating income requirement and the additional taxes and fees produce an additional base rate revenue requirement of approximately $323 million. When this base rate increase is combined with the proposed change to the EDIT rider, it produces a net annual increase of approximately $239 million for Year 1 and Year 2. At the conclusion of the EDIT flowback period, the net increase will return to approximately $323 million.

IV. ACCOUNTING AND PRO FORMA ADJUSTMENTS

Q. PLEASE EXPLAIN PAGE 3 OF JIGGETTS DIRECT EXHIBIT 1 CAPTIONED "DETAIL OF ACCOUNTING ADJUSTMENTS-SOUTH CAROLINA RETAIL."

A. Pages 3 – 8 set forth the individual accounting and pro forma adjustments to operating revenues and expenses, including the income tax effects for South Carolina retail electric operations, that were shown in total on Page 1 of Jiggetts Direct Exhibit 1 in Column 3. The totals in Column 35 of Page 5 are the amounts carried forward to Column 3 of Page 1 of Jiggetts Direct Exhibit 1. The impact of the accounting and pro forma adjustments on rate base are shown on Pages 6 – 8 and Pages 9 – 13 of Jiggetts Direct Exhibit 1.

Q. PLEASE LIST THESE ACCOUNTING AND PRO FORMA ADJUSTMENTS.

A. The accounting and pro forma adjustments that were made by the Company are as follows (the chart below indicates which witness is sponsoring each adjustment):[1]

[1] DEC intentionally excluded certain adjustment numbers to keep similar pro forma adjustment line numbers the same between the Company and DEP to allow for easy comparison in future cases. Items with an asterisk are expected to be updated in the Supplemental Filing as discussed below.

ADJUSTMENTS TO OPERATING REVENUES AND EXPENSES (Pages 3 – 8 of JIGGETTS DIRECT EXHIBIT 1)			
Column No.	**Adjustment No.**	**Adjustment Title**	**Witness**
1	SC1010	Annualize retail revenues for current rates	Beveridge
2	SC1020	Eliminate unbilled revenues	Jiggetts
3	SC1030	Adjust other revenue	Beveridge
4	SC2010	Update fuel costs to approved rates and other fuel related adjustments	Jiggetts
5	SC2030	Eliminate costs recovered through non-fuel riders	Jiggetts
6	SC2040	Adjust O&M for executive compensation	Jiggetts
7	SC2050	Normalize O&M labor expenses*	Jiggetts
8	SC2060	Update benefits costs	Jiggetts
9	SC2070	Adjust vegetation management	Jiggetts
10	SC2080	Adjust test year expenses	Jiggetts
11	SC2090	Adjust aviation expenses	Jiggetts
12	SC2100	Levelize nuclear refueling outage costs*	Jiggetts
13	SC2120	Adjust reserve for end-of-life nuclear costs	Jiggetts
14	SC2150	Adjust test year rent expense	Jiggetts
15	SC2160	Adjust O&M for reliability assurance	Walsh
16	SC3010	Annualize depreciation *	Jiggetts
17	SC3020	Annualize property taxes*	Jiggetts
18	SC3030	Adjust for post test year additions to plant in service*	Jiggetts
19	SC3040	Adjust for new depreciation rates*	Jiggetts
20	SC3050	Adjust CWIP in rate base*	Jiggetts
21	SC4010	Amortize environmental ARO costs*	Jiggetts
22	SC5010	Remove expiring amortizations	Jiggetts
23	SC5020	Amortize rate case costs*	Jiggetts
24	SC5030	Amortize environmental non-ARO costs*	Jiggetts
25	SC5040	Amortize grid costs*	Jiggetts
26	SC5050	Amortize loss on sale of hydro stations	Jiggetts
27	SC5100	Amortize SC AMI costs	Jiggetts
28	SC5120	Amortize customer connect	Jiggetts
29	SC5140	Amortize S.C. Act No. 62 costs*	Jiggetts
30	SC5150	Amortize credit card fees*	Jiggetts
31	SC6010	Adjust coal inventory	Jiggetts
32	SC6020	Adjust cash working capital*	Jiggetts
33	SC6030	Synchronize interest expense*	Jiggetts
34	SC7010	Normalize storm costs and adjust storm reserve*	Jiggetts

Q. IN CALCULATING THE TOTAL REVENUE REQUIREMENT IN THIS PROCEEDING, DID YOU REVIEW EACH OF THE ACCOUNTING AND PRO FORMA ADJUSTMENTS?

A. Yes.

Q. IN YOUR OPINION, DO THESE ACCOUNTING AND PRO FORMA ADJUSTMENTS REFLECT KNOWN AND MEASURABLE CHANGES TO THE COMPANY'S TEST PERIOD OPERATING EXPENSES, REVENUES, AND RATE BASE?

A. Yes. The adjustments set forth on Pages 3 – 8 of Jiggetts Direct Exhibit 1, as more fully supported below and in the testimony of Witnesses Beveridge and Walsh, reflect known and measurable changes to the Company's Test Period revenues, expenses, and rate base. Consistent with prior general rate cases, adjustments that contain projections through December 31, 2023, the proposed capital cut-off date in this case (as indicated with an asterisk in the table above), will be updated with actual results in a supplemental filing within the next three weeks (the "Supplemental Filing").

Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENTS.

A. The following are descriptions of the pro forma adjustments:

1. SC1010 – Annualize retail revenues for current rates

This adjustment annualizes revenue based on the rates in effect at the time of the Company's Application, excluding the Distributed Energy Resources Program ("DERP") revenues recovered in the fuel rider, and removes revenues derived through the Demand Side Management and Energy

Efficiency ("DSM/EE") rider and EDIT rider. This adjustment is discussed in more detail in the testimony of Witness Beveridge.

2. SC1020 – Eliminate unbilled revenues

This adjustment eliminates unbilled revenue and related taxes recorded by the Company in the Test Period.

3. SC1030 – Adjust other revenue

This adjustment reduces other revenues based upon the proposed rates contained in the Company's Service Regulations and Manually Read Meter Rider. The proposed changes are discussed further in Witness Beveridge's testimony.

4. SC2010 – Update fuel costs to approved rate and other fuel related adjustments

This adjustment adjusts fuel clause expense during the Test Period to match the fuel clause revenues included in pro forma Adjustment No. SC1010, Annualize retail revenues for current rates. By matching the expenses to the revenue, the adjustment ensures that no increase is requested in this proceeding related to fuel and fuel-related expenses that are recoverable through the fuel clause. However, certain DERP expenses that are not readily identifiable in the general ledger are eliminated by including an offsetting revenue adjustment to keep the DERP incremental cost neutral in this case.

5. SC2030 – Eliminate costs recovered through non-fuel riders

This adjustment removes expense and rate base items recovered through the DSM/EE rider. The revenues, expenses, and rate base items in this rider are reviewed each year in an annual proceeding and should not impact the increase requested in this proceeding. This adjustment also removes the amortization related to the EDIT rider. The Company files annual updates to its EDIT rider in Docket No. 2018-319-E, and, therefore, the EDIT rider amortization should not impact the base rate increase requested in this proceeding. However, the Company is proposing a change to the EDIT rider, as shown in Jiggetts Direct Exhibit 3, that I discuss later in my testimony.

6. SC2040 – Adjust O&M for executive compensation

This adjustment removes 50% of the compensation of the five Duke Energy executives with the highest level of compensation allocated to DEC in the Test Period. While the Company believes these costs are reasonable, prudent, and appropriate to recover from customers, we have, for purposes of this case, made an adjustment to this item.

7. SC2050 – Normalize O&M labor expenses

This adjustment adjusts the wages and salaries, related employee benefits costs, and changes in related payroll taxes to reflect annual levels of costs as of September 30, 2023. This will be updated in the Supplemental Filing to reflect the annual levels of costs as of December 31, 2023. This adjustment also restates variable short- and long-term incentive pay to the 2023 target level.

8. SC2060 – Update benefits costs

This adjustment updates the Test Period cost of labor-related benefits to match the results of updated analysis performed by the Company's consultants.

9. SC2070 – Adjust vegetation management expenses

The Company performs routine vegetation management as a part of maintaining the transmission and distribution system. This adjustment adjusts the mileage maintained during the Test Period to a normalized level and increases O&M expense in the Test Period to reflect known contract rate increases.

10. SC2080 – Adjust test year expenses

This adjustment adjusts O&M expense to create an allowance for mischarges as a result of human error in the case. While the Company's system of internal accounting controls and audits are in place to provide reasonable assurance that amounts recorded on the books and records of the Company are accurate and proper, the Company has experienced occasions when certain expenses have been improperly charged due to human error. While these amounts are not material for accounting purposes, they may be considered material for ratemaking purposes. To ensure that the proposed revenue requirement in the case does not reflect any amounts of electric expenses that are inaccurate, the Company took additional steps to eliminate the impact of potential mischarges due to human error. Specifically, prior to filing this rate case, the Company took preventive measures to review underlying cost data in particular accounts where errors could likely occur. The Company used a combination of data analytics to electronically scan source data and manual reviews of detail transactions to identify expenses that it deemed were not appropriate for cost recovery.

As an additional precaution, DEC elected to remove an additional \$0.2 million from O&M expense in case any other potential mischarges were discovered during the course of this proceeding. Any such mischarges that are discovered would be deducted against this amount, and, if any amount of this \$0.2 million remains after any further mischarges are netted against it, the remaining balance will continue to be excluded from recovery for the benefit of customers. The Company's goal in this instance is to reduce the potential for supplemental changes to its requested revenue increase. Should the South Carolina Office of Regulatory Staff ("ORS") or another party, in the course of their audit of expenses, identify an amount that they and the Company agree was improperly included in South Carolina retail electric expenses due to human error, there would be no need for any party to propose an adjustment, so long as the amount of error does not exceed the additional \$0.2 million as described above. If, however, mischarges are found that exceed \$0.2 million, the Company would make a supplemental adjustment to its filing to reflect further reduction of electric expenses assigned or allocable to South Carolina retail.

This adjustment also adjusts Test Period interest on customer deposits to remove the impacts of a one-time adjustment posted during the Test Period that is not considered ongoing in nature.

11. SC2090 – Adjust aviation expenses

This adjustment removes 50% of the corporate-related aviation expenses allocated to DEC in the Test Period that are not related to aerial patrol. While the Company believes these costs are reasonable, prudent, and appropriate to recover from customers, we have, for purposes of this case, made an adjustment to this item.

12. SC2100 – Levelize nuclear refueling outage costs

In Order No. 2013-661 issued in Docket No. 2013-59-E, the Commission approved an accounting mechanism that levelized certain costs related to nuclear refueling outages. This adjustment annualizes the amortization expense related to this mechanism incurred during the Test Period to the level experienced at the end of the Test Period.

13. SC2120 – Adjust reserve for end-of-life nuclear costs

In this case, the Company is proposing to establish end-of-life nuclear reserves to cover the costs of nuclear fuel and material and supplies inventory that will be remaining when the nuclear sites are decommissioned. This adjustment adjusts depreciation and amortization expenses in order to establish the reserve. This adjustment increases Test Period O&M expense by $4.7 million. This adjustment also decreases rate base, net of taxes, reflecting the establishment of a regulatory liability for the end-of-life nuclear reserves by $3.5 million. The end-of-life nuclear reserve proposal is discussed in more detail later in my testimony. This adjustment is also discussed further in the testimony of Witness Steven Capps.

14. SC2150 – Adjust test year rent expense

This adjustment is to reflect known, post-test year changes to both rent expense and rent revenue associated with changes in the real estate portfolio.

15. SC2160 – Adjust for O&M reliability

This adjustment increases Test Period O&M for planned reliability assurance projects. These projects are discussed in more detail in the testimony of Witness Walsh.

16. SC3010 – Annualize depreciation

This adjustment reflects the annualization of depreciation expense using the depreciation rates in effect at the end of the Test Period applied to the forecasted plant in service balances as of the end of the capital cut-off. During the Test Period, the Company recorded depreciation for plant additions from the point in time when they went into service. This adjustment annualizes depreciation expenses to reflect a full year level of depreciation on plant in service as of the capital cut-off. Forecasted plant in service balances will be updated with actual balances in the Supplemental Filing.

17. SC3020 – Annualize property taxes

This adjustment annualizes Test Period property taxes on plant in service as of December 31, 2023. Property taxes expensed in calendar year 2022 were assessed based on property balances at the end of 2021. Likewise, property taxes expensed in calendar year 2024 will be assessed based on property balances at the end of 2023. This adjustment therefore increases property tax expense in the Test Period to reflect an annual level of expense for property taxes based on the end of the update period level of plant investment. Forecasted plant in service balances will be updated with actual balances in the Supplemental Filing.

18. SC3030 – Adjust for post test year plant in service additions

This adjustment updates rate base to reflect actual plant in service and accumulated depreciation balances as of December 31, 2023. Forecasted plant in service balances will be updated with actual balances in the Supplemental Filing. Witnesses Capps, Bennett Fogg, Brent Guyton, Retha Hunsicker, and Walsh discuss the plant additions in their testimonies.

19. SC3040 – Adjust for new depreciation rates

This adjustment adjusts the annualized depreciation expense based on plant in service as of December 31, 2023 to reflect the new depreciation rates based on the updated depreciation study prepared by Gannett Fleming, provided as Spanos Direct Exhibit 1, and discussed and supported by Witness John Spanos (the "2021 Depreciation Study"). The depreciation rates, as reflected in Spanos Direct Exhibit 2, also reflect a later retirement date for Cliffside Unit 5 which is consistent with the Integrated Resource

Plan that was just filed with the Commission. Implementing the new depreciation rates will result in an increase to depreciation expense of approximately $194 million on a system basis, or $44 million on a South Carolina retail basis. The adjustment also increases depreciation reserves by an annual amount of the depreciation expense adjustment. Forecasted plant in service balances will be updated with actual balances in the Supplemental Filing.

20. SC3050 – Add CWIP in rate base

This adjustment increases rate base to include the construction work in progress ("CWIP") projected balance as of December 31, 2023, excluding projects included in the Grid Improvement Plan regulatory asset. The Company plans to update the CWIP balance to actuals as of December 31, 2023, in the Supplemental Filing. If these projects are not in service by the time new customer rates in this case are effective, the Company will stop accruing allowance for funds during construction on the portion of the projects that is included in rate base starting with the new rates effective date.

21. SC4010 – Amortize environmental ARO costs

In Docket No. 2018-319-E, the Commission approved the Company's request to continue regulatory asset treatment for certain costs incurred in connection with compliance with federal and state environmental requirements relating to Coal Combustion Residuals ("CCR" or "coal ash"). The nature and extent of these costs is described in more detail in Witness

Jessica Bednarcik's testimony. These compliance costs are related to coal ash basin closure and are subject to asset retirement obligation ("ARO") accounting per Generally Accepted Accounting Principles ("GAAP"). No fines, penalties, or costs for which the Company has agreed to forgo recovery are included in the regulatory asset. The compliance costs that the Company is seeking to recover are based on actuals from September 1, 2018 through September 30, 2023, plus a projection of costs incurred from October 1, 2023 through December 31, 2023.

After adjusting for certain costs specific to the North Carolina Coal Ash Management Act ("CAMA") and certain costs relating to the Company's legacy sites as explained by Witness Bednarcik, these compliance costs total approximately $994 million on a system basis and $235 million on a South Carolina retail basis (see chart below). After incorporating carrying costs through July 31, 2024, the expected regulatory asset balance on a South Carolina retail basis is $290 million.

Site	Total System	Less Adjustments	Adjusted Total System	Allocated to SC Retail
Allen	$121	$(1)	$120	$28
Belews Creek	138	(1)	137	33
Cliffside	126	(0)	126	30
Marshall	204	(0)	204	48
Buck	242	(1)	241	57
Dan river	76	(0)	76	18
WS Lee (SC)	89	-	89	21
Riverbend	103	(103)	-	-
Total	**$1,099**	**$(106)**	**$994**	**$235**

In addition, the Company is resubmitting for recovery certain CCR costs that were previously provisionally disallowed in the Company's last general rate case in Docket No. 2018-319-E based on the Commission's conclusion that the costs were incurred solely as a result of CAMA. Witnesses Bednarcik and Marcia Williams provide more detail and support for the resubmission of these costs for recovery in this case, and their testimony demonstrates that the conditions articulated by the Commission and ORS Witness Dan J. Wittliff in the Company's previous rate case for recovery of previously disallowed costs have been met, in that there has been a significant change in circumstances since the Commission's decision in the previous case. The total amount of disallowance in the Company's last general rate case was $470 million on a system basis and $110 million on a South Carolina retail basis. The Company is resubmitting for cost recovery in this case $36 million on a South Carolina retail basis.

The Company also proposes to partially offset the compliance costs incurred by insurance proceeds received, net of legal fees. The insurance proceeds relate to litigation that was initiated in 2017 by the Company for the benefit of its customers to enforce insurance policies and obtain indemnity from insurers for costs incurred associated with coal ash remediation. In the summer of 2021, settlements were reached with all of the 12 insurers for a total sum of just over $418 million on a system wide basis (both DEC and DEP). After removing legal fees, the total net insurance proceeds were allocated by site, based upon the total amount of ash located on site. The proceeds relating to

DEC sites were then allocated to South Carolina retail by applying the percentage of compliance costs recovered or projected to be recovered from South Carolina retail customers, including amounts approved for recovery in previous docket (2018-319-E), as well as the requested recovery amount in this case, of total DEC system compliance costs incurred from inception through December 31, 2023. This results in a net insurance proceeds amount of $47 million. The allocation to South Carolina retail customers will be updated to reflect the actual amounts the Commission approves for recovery in this proceeding.

The resulting total regulatory asset balance including all three components is $279 million. This adjustment amortizes the regulatory asset balance over a seven-year period, which results in an annual amortization expense of $40 million, and includes the regulatory asset balance in rate base.

22. SC5010 – Remove expiring amortizations

This adjustment removes the impact of regulatory assets previously approved by the Commission for recovery. The regulatory assets were either fully amortized by the end of the Test Period or will be fully amortized before proposed new rates are effective and, therefore, should not be included in Test Period costs on which rates are based.

23. SC5020 – Amortize rate case costs

This adjustment amortizes over a five-year period the incremental rate case costs incurred through September 30, 2023 and projected to be incurred for this docket, as well as costs incurred after the cut-off in the Company's last general rate case which have not been brought forth for recovery. Projected costs associated with this docket will be updated in the Supplemental Filing.

24. SC5030 – Amortize environmental non-ARO costs

A portion of the environmental compliance costs associated with coal ash are related to the continued operation of the active plants and are not subject to ARO accounting, and instead are capitalized to plant in service. In the Company's last general rate case, the Company requested approval of a continuation of regulatory asset treatment for the depreciation and carrying costs on the environmental compliance investments related to continued plant operations placed in service on or after January 1, 2019, as well as the regulatory asset balance at the overall rate of return approved in the case. The Commission approved the Company's request for continuation of regulatory asset treatment for the environmental non-ARO costs with carrying costs on capital-related costs only in Docket No. 2018-319-E. The Company has placed in service non-ARO environmental compliance investments of $289 million on a system basis since January 1, 2019. The resulting total regulatory asset balance is $43 million. This adjustment amortizes the regulatory asset balance related to these non-ARO environmental costs over a five-year period and includes the balance, net of one year of amortization and taxes, in rate base.

25. SC5040 – Amortize grid costs

In the Company's last general rate case, the Commission approved regulatory asset treatment for Grid Improvement Plan costs, as stipulated between the ORS and the Company. The Company was granted approval to record to a regulatory asset Grid Improvement Plan-related costs until the underlying costs and proposed recovery could be considered in the next general rate proceeding, consistent with the Commission's prior accounting order on grid investment, Order No. 2018-751 issued in Docket No. 2018-206-E. Since December 31, 2018, the cut-off in the last rate case, the Company has, or will have by December 31, 2023, placed in service investments of $475 million on a South Carolina retail basis. The regulatory asset treatment of the incremental O&M, depreciation, and property taxes as well as the carrying costs on the capital investments and on the regulatory asset balance results in a total balance of $180 million. This adjustment amortizes the regulatory asset balance over a seventeen-year period and includes the balance, net of one year of amortization and taxes, in rate base. Forecasted grid improvement plan balances will be updated with actual balances in the Supplemental Filing. Witnesses Guyton and Fogg support the reasonableness and prudence of these investments and how they are benefiting customers.

26. SC5050 – Amortize loss on sale of hydro stations

In Docket 2018-281-E, the Company petitioned for approval to defer into a regulatory asset account losses incurred associated with the August 16, 2019 sale of five hydroelectric generation facilities. The Commission approved the Company's petition on June 26, 2019. The total deferred losses are $8 million on a South Carolina retail basis. This adjustment amortizes the deferred balance over a five-year period, which includes a net of tax return on the unamortized balance of the Regulatory Asset. Witness Walsh discusses how the sale of the facilities benefited customers in his testimony.

27. SC5100 – Amortize SC AMI costs

In Docket No. 2016-240-E, the Company petitioned for approval to record to a regulatory asset account the incremental O&M and depreciation expense incurred once the Advanced Metering Infrastructure ("AMI") technology meters were installed, as well as the associated carrying costs on the investment and on the regulatory asset balance at its weighted average cost of capital. The Commission approved the Company's petition on June 29, 2016. In the Company's last general rate case, the Company requested approval to continue regulatory asset treatment for the incremental O&M and depreciation expense associated with ongoing AMI deployment, including the carrying cost on the investment and on the regulatory asset balance at the weighted average cost of capital approved in the case. The Commission approved the Company's request for continuation of the AMI regulatory asset with carrying cost on capital-related costs only in Docket No. 2018-319-E. The Company has placed in service additional investments of $3 million on a South Carolina retail basis since January 1, 2019. The total regulatory asset balance included for recovery, including depreciation expense and cost of capital on South Carolina AMI plant additions, is $3 million on a South Carolina retail basis. This adjustment amortizes the South Carolina AMI regulatory asset balance over a three-year period and includes the cost of capital portion of the balance, net of one year of amortization and taxes, in rate base.

28. SC5120 – Amortize Customer Connect

In Docket No. 2018-207-E, the Company petitioned for approval to defer into a regulatory asset account the incremental operating and maintenance expenses associated with deployment of the new customer billing system, Customer Connect, and carrying costs on the deferred costs at the weighted average cost of capital. The request was approved by the Commission on August 7, 2018. Recovery for the first tranche of deferred costs incurred from January 1, 2018 through December 31, 2018 was addressed in the Company's last general rate case in Docket No. 2018-319-E. In this proceeding, the Company is seeking recovery of costs incurred and deferred from January 1, 2019 through rates effective date in this case. This adjustment amortizes $9 million over a three-year period and includes the balance, net of one year of amortization and taxes, in rate base. Witness Hunsicker discusses how the Customer Connect system benefits customers in her testimony.

29. SC5140 – Amortize S.C. Act No. 62 of 2019 ("Act 62") costs

Act 62 was passed by the South Carolina General Assembly on May 9, 2019 and signed into law by South Carolina Governor Henry McMaster on May 16, 2019. Section 15 of Act 62 states that, "All costs incurred by the utility necessary to effectuate this act, that are not precluded from recovery by other provisions of this act and that do not have a recovery mechanism otherwise specified in other provisions of the act or established by state law, shall be deferred for commission consideration of recovery in any proceeding initiated under Section 58-27-870, if deemed reasonable and prudent." Act No. 62 § 15.

Pursuant to this section, DEC recorded expenses incurred to implement Act 62 in a regulatory asset account. The Act 62 regulatory asset balance the Company is seeking to recover is based on actual costs incurred through September 30, 2023, plus a projection of costs incurred from October 1, 2023 through December 31, 2023. The projected costs will be updated with actual costs in the Supplemental Filing. This adjustment amortizes the regulatory asset balance over a three-year period and includes the balance, net of one year of amortization and taxes, in rate base.

30. SC5150 – Amortize residential credit card fees

In Order No. 2019-455 issued in the Company's last general rate case in Docket 2018-319-E, the Commission granted the Company's request to defer the costs of credit card convenience fee expenses incurred in connection with implementation of its transaction-fee-free credit card payment program for residential customers. Incremental costs incurred above the amount included in rates have been deferred based on the Commission order. The deferred residential credit card fees regulatory asset balance the Company is seeking to recover is based on actual costs incurred through September 30, 2023, plus a projection of costs incurred from October 1, 2023 through December 31, 2023. The projected costs will be updated in the Supplemental Filing with actual costs incurred. This adjustment amortizes the regulatory asset balance over a three-year period and includes the balance, net of one year of amortization and taxes, in rate base.

31. SC6010 – Adjust coal inventory

This adjustment increases the Company's actual coal inventory at the end of the Test Period to reflect a targeted 40-day full load burn for each of the coal generating plants. This change in coal inventory for the South Carolina retail jurisdiction is shown on Jiggetts Direct Exhibit 1, Page 12, Line 1, Column 3.

32. SC6020 – Adjust cash working capital

This adjustment adjusts the Company's rate base to include the additional cash working capital required as a result of the additional O&M expenses the Company is proposing in this proceeding as shown on Line 2, Column 3 of Jiggetts Direct Exhibit 1, Page 13.

33. SC6030 – Synchronize interest expense

This adjustment adjusts income taxes for the tax effect of the annualization of interest expense reflected in the pro forma cost of service.

34. SC7010 – Adjust storm normal and storm reserve

This pro forma adjustment normalizes storm recovery costs to an average level of costs the Company has experienced over the last five years. The average excludes the amounts for unusual storms which were applied against the storm reserve. The adjustment also includes a $5 million increase in the revenue requirement for the established DEC storm reserve to replenish the account, which is currently in a regulatory asset position. Storm reserve funding will be assessed and adjusted as needed in future general rate case proceedings to ensure compliance with the Commission's directive that no more than a $50 million regulatory liability be accumulated in the reserve.

Q. PLEASE EXPLAIN WHAT IS PRESENTED ON PAGES 9 THROUGH 13 OF JIGGETTS DIRECT EXHIBIT 1.

A. Page 9 of Jiggetts Direct Exhibit 1 shows total Company (system) and South Carolina retail components of original cost rate base. The total Company (system) amounts and South Carolina retail components were taken from the Company's cost of service study as of December 31, 2022.

Pages 10 through 13 of this exhibit are details of components making up original cost rate base as of December 31, 2022 adjusted for known and measurable changes. On each of these four pages, Column 1 shows the total Company per book amounts as of December 31, 2022; Column 2 reflects the amount for South Carolina retail electric operations; Column 3 sets forth the accounting adjustments allocated to South Carolina retail operations; and Column 4 reflects the South Carolina retail amounts including adjustments.

Page 10 is a summary of the Company's investment in electric plant in service as of December 31, 2022 by functional classification. Page 11 details accumulated depreciation and amortization for each of the classes of electric plant in service. The composite depreciation rates based on end of 2022 plant balances for each class of property are shown at the bottom of the page on Lines 8 through 15. The depreciation rates underlying these composite calculations are based on the 2021 Depreciation Study as submitted in this case and are supported by Witnesses Spanos and Speros. Page 12 is a summary of the Company's investment in materials and supplies as of December 31, 2022 included in rate base. Page 13 reflects the working capital investment included in rate base.

V. EDIT RIDER

Q. WHAT IS THE STATUS OF THE COMPANY'S EDIT RIDER?

A. In DEC's last general rate case, the Commission approved the Company's request to flow back five categories of benefits resulting from the Tax Cuts and Jobs Act of 2017 to customers through an EDIT rider. The Company proposed to file annual updates to its EDIT rider in Docket No. 2018-319-E by March 31, for rider rates effective June 1. The Company has made those annual filings and provided the EDIT rider calculations to the ORS for review in compliance with the Commission's Order No. 2019-323. Two of the five categories of benefits have been fully amortized and flowed back to customers.

The Company proposes to continue the annual EDIT rider updates for the remaining three categories of benefits: (1) Federal EDIT – Protected; (2) Federal EDIT – Unprotected, Property Plant & Equipment ("PP&E")-related; and (3) Federal EDIT – Unprotected, non-PP&E-related. The Company will continue to update the Average Rate Assumption Method ("ARAM") rate and retention factor to reflect the most current in its annual EDIT rider filing as well as any changes to the EDIT balance in base rates and rate of return.

Q. PLEASE DESCRIBE THE PROPOSED CHANGES TO THE COMPANY'S EDIT RIDER.

A. In order to mitigate the impact of the base rate increase to customers and to allow the appropriate revenue recovery, the Company proposes to flow back to customers on an accelerated basis, federal unprotected EDIT associated with PP&E. These amounts do not fall under the federal Internal Revenue Service ("IRS") guidelines for protected status.

In its last general rate case, the Commission approved the Company's proposal to flow back this portion of the federal EDIT to customers over a 20-year period. The 20-year period tied directly to the underlying assets that created the deferred tax balances, which became EDIT when the corporate tax rate was reduced to 21%. In this general rate case, the Company proposes to flow back the remaining portion of federal unprotected PP&E-related EDIT to customers over two years (24 months), beginning on the rates effective date of August 1, 2024. The Company proposes to continue annual updates to the EDIT rider, effective in June.

The Company filed its most recent annual EDIT rider update with the Commission on March 31, 2023. The Commission granted the Company's request for approval of the updated EDIT rider in a directive, dated April 27, 2023. This update represented Year 5 and was effective on June 1, 2023, with 16 of the 20 years remaining for the federal unprotected PP&E amortization. The Year 5 annualized rider revenues approved were ($55.8) million. The Company will file another update to the EDIT rider before rates become effective under this proceeding. The next update will represent Year 6 and will be effective on June 1, 2024. Year 6 estimated annualized revenues are ($18.0) million as reflected on Jiggetts, Direct Exhibit 3, Page 1, Line 13.

Jiggetts Direct Exhibit 3, Page 2, Column B, Line 19 shows the impact to the annual EDIT amortization of the proposal to accelerate the flowback of the federal unprotected PP&E-related EDIT. Jiggetts Direct Exhibit 3, Page 3, Line 12 shows the revised annual EDIT rider revenues for Year 6 beginning August 1, 2024, resulting from the accelerated EDIT amortization and updates to the EDIT balance in base rates and the rate of return. The new annual EDIT rider revenue is estimated to be ($102.3) million. When compared to the estimated amount of ($18.0) million discussed previously, this represents an annualized decrease of approximately $84.3 million in customer rates, as shown in Jiggetts Direct Exhibit 3, Page 1, Line 3. Direct Exhibit 3, Page 3, also shows the estimated impact to the annual revenue of the proposed EDIT rider changes in Years 7 through 10. Years 7 through 10 are shown for illustrative purposes. The actual rider amounts for those years may change based on factors such as the change in the ARAM rate or retention factors.

The proposed change to the EDIT rider partially offsets the annual base rate increase by approximately $84.3 million.

Q. WHY IS THE COMPANY NOT PROPOSING TO ACCELERATE THE RETURN OF FEDERAL PROTECTED PROPERTY-RELATED EDIT?

A. The flowback treatment of federal protected EDIT related to the Company's investment in PP&E is expressly made subject to IRS normalization rules. The normalization rules require protected EDIT to be flowed back over the remaining lives of the property giving rise to the deferred tax balance. These amounts cannot be returned to customers more quickly than the prescribed method. The amortization period the Company uses for the federal protected PP&E-related EDIT is called the ARAM. As previously mentioned, the Company updates this ARAM rate annually in the EDIT rider so that the most current rate is used when adjusting customer rates and to avoid possible normalization violations.

Q. WHY IS THE COMPANY NOT PROPOSING TO ACCELERATE THE RETURN OF FEDERAL UNPROTECTED NON-PROPERTY-RELATED EDIT?

A. The federal unprotected non-property-related EDIT is being amortized over a five-year period as approved in DEC's last general rate case and is expected to be fully amortized in May 2024.

VI. END-OF-LIFE NUCLEAR RESERVES REQUEST

Q. WHAT IS THE COMPANY PROPOSING FOR END-OF-LIFE NUCLEAR RESERVES?

A. There are some end-of-life costs at a nuclear plant that are not captured in a decommissioning study and therefore not covered in the decommissioning fund. These include the costs of the materials and supplies in inventory at the time of decommissioning that have little or no salvage value and the remaining nuclear fuel in the reactor at the end of the nuclear plant's life. Witness Capps details these cost categories in his testimony.

Materials and Supplies

The Company is proposing to create a reserve, similar to the mechanism already in place for DEP, to start accruing for these end-of-life expenses for obsolete materials and supplies over the remaining life of its nuclear units and, therefore, create a better matching of cost and benefit for ratemaking purposes. The annual accrual amount will be determined by dividing the projected inventory balance at the end of each unit's life by the number of years remaining in the unit's life and summing this result for the Company's three nuclear plants. As discussed in the testimony of Witness Capps, the Company used the existing inventory balance at the end of the Test Period as the projected inventory balance remaining on the last day of operation. In this proceeding, the Company is requesting an annual accrual amount of approximately $2.4 million as allocated to South Carolina retail. The annual accrual amount will be reviewed and adjusted, as needed, in each future general rate case before the end of the plant's life. The reserve, once it is created, will be included as an offset to rate base in the cost of service, and the pro forma decreases rate base to reflect one year's worth of the accrual.

Nuclear Fuel Core

The Company is also proposing to create a reserve, similar to the mechanism already in place for DEP, to start accruing for the expense related to a portion of the last core of nuclear fuel in the reactor at the end-of-life of its generating plants and, therefore, create a better matching of cost and benefit for ratemaking purposes. The annual accrual amount will be determined by dividing the projected remaining value of the last core of nuclear fuel at the end of each unit's life by the number of years remaining in the unit's life and summing this result for the Company's three nuclear plants. In this proceeding, the Company is requesting an annual accrual amount of $2.3 million as allocated to South Carolina retail. Similar to the proposed materials and supplies reserve, the annual accrual amount will be reviewed and adjusted, as needed, in each future general rate case before the end of the plant's life. The reserve, once it is created, will be included as an offset to rate base in cost of service, and the pro forma decreases rate base to reflect one year's worth of the accrual.

Q. WHAT IS THE REVENUE REQUIREMENT ASSOCIATED WITH THE END-OF-LIFE NUCLEAR RESERVES THE COMPANY HAS PROPOSED?

A. The revenue requirement associated with the end-of-life nuclear reserves is included in pro forma Adjustment No. SC2120, Adjust end of life nuclear costs, Column 13, Line 23, shown on Jiggetts Direct Exhibit 1, Page 7, and described earlier in my testimony. The annual revenue requirement to be collected on behalf of customers is approximately $4.7 million.

VII. ACCOUNTING DEFERRAL REQUESTS

Q. IS THE COMPANY REQUESTING ACCOUNTING DEFERRALS IN THIS CASE?

A. Yes. The Company requests an accounting order for approval to continue regulatory asset treatment for coal ash compliance costs after the cut-off date for this rate case. In addition, the Company is requesting an accounting order for approval to defer benefits, net of costs associated with obtaining and maximizing the value of the anticipated nuclear production tax credits, associated with the Company's pursuit of opportunities under the IRA.

Q. PLEASE DESCRIBE THE ACCOUNTING DEFERRAL REQUEST RELATING TO COAL ASH COMPLIANCE COSTS.

A. DEC requests Commission authorization to continue the existing regulatory asset treatment for its environmental compliance costs beyond the December 31, 2023 capital cut-off period for cost recovery consideration in a future base rate case. Specifically, the Company is requesting approval to record to a regulatory asset CCR compliance costs beginning January 1, 2024, with carrying costs at the overall rate of return approved in this case. Approval of this accounting request will not involve a change to any DEC rates at this time.

Q. IS THIS REQUEST A DEFERRAL THAT WOULD FALL UNDER THE COMMISSION'S ORDER NO. 2023-38 ("DEFERRAL ORDER") ISSUED IN DOCKET NO. 2019-233-A ("DEFERRAL DOCKET")?

A. Yes.

Q. WHAT ARE THE EIGHT CONSIDERATIONS FOR DEFERRAL LISTED IN THE DEFERRAL ORDER?

A. The Commission's Deferral Order instructs utilities to address eight considerations, which are as follows:

1. Whether the expense being incurred by the utility is significant to the utility.
2. Whether the expense is necessary, could not have been reasonably anticipated by the utility, or is beyond the utility's control.

3. Whether the expense is of a nature that complete cost recovery cannot be captured through traditional ratemaking.

4. Whether the expense is currently included in rates.

5. Whether the deferral results in procedural efficiency.

6. Whether the deferral will be included in a rate case within a reasonable time.

7. Whether the deferral helps advance any technological improvement, modernization, or compliance with applicable law or regulation.

8. Whether the cost being deferred will ultimately create customer savings or operational benefits from what would otherwise occur absent the expenditure.

As the Company noted in its comments in the Deferral Docket, each guideline may not be applicable to every deferral request. The Commission stated that utilities may seek a waiver of the requirements in the Deferral Order based on the nature of the deferral sought.

Q. CAN YOU PLEASE ADDRESS THE EIGHT CONSIDERATIONS WITH RESPECT TO THE REQUESTED CONTINUATION OF THE DEFERRAL OF COAL ASH COMPLIANCE COSTS?

A. Yes.

1. Are the coal ash expenditures sought to be deferred significant to DEC? Yes. The coal ash compliance costs are significant to DEC. As the Company noted in its comments in the Deferral Docket, deferral accounting is typically reserved for substantial expenditures by a utility. As discussed in Witness Bednarcik's direct testimony, the cost for compliance from 2024 through 2028 is approximately $249 million on a South Carolina retail basis (an average of $50 million per year). The financial impact to the Company of denying the deferral of coal ash compliance costs (and not approving an alternative means of recovery) would amount to approximately 90 basis points *on an annual basis*.

While this information satisfies the first guideline, it also satisfies the recommendation from ORS, as adopted in the Deferral Order, to describe whether the costs, absent deferral, would adversely affect the utility's earnings as compared to the most recently allowed return set by the Commission (which is also being set in this case).

2. Is the expense necessary, could not have been reasonably anticipated by DEC, or is beyond DEC's control? The coal ash compliance costs sought to be deferred are necessary to comply with environmental regulations that compel us to close these basins per the federal CCR Rule. They are beyond DEC's control in the sense that DEC does not have an option of whether to comply with the federal CCR Rule, but rather it must make these investments in order to fulfill its legal obligations under the federal CCR Rule. Moreover, at the time the basins were created, used, and necessary to capture ash from coal burned to generate electricity for South Carolina customers in order to keep plants operational—all of which were actions that complied with environmental laws—the Company could not have reasonably anticipated or calculated what would be required from environmental laws passed decades later.

While this information satisfies the second guideline, it also satisfies the recommendation from ORS, as adopted in the Deferral Order, to describe whether the costs in question are unusual or extraordinary in nature.

3. Can complete recovery of the expense be captured through traditional ratemaking? No. While the Company has detailed estimates for the costs the Company needs to incur to close its remaining coal ash basins, the costs the Company will incur on an annual basis vary significantly based on the activities to be performed that particular year and are therefore not suitable to reflect an ongoing amount in rates that reflects the actual costs. A deferral would more accurately capture these costs.

4. Is the expense currently included in rates? No. Due to the deferred ARO coal ash compliance costs being sought for recovery in this case and the reasons explained in guidance (3) above, the Company's revenue requirement does not reflect any incremental costs incurred for ongoing coal ash compliance activities.

5. Does the deferral result in procedural efficiency? Yes. The Company's current model of spend/defer/recover for coal ash costs is procedurally efficient as it allows the ORS and the Commission to audit specific tranches of coal ash expenditures for reasonableness and prudency in each rate case. If a predetermined amount of coal ash costs were included in rates, the ability to isolate and audit the specific costs attributable to coal ash basin closure activities gets more difficult.

6. Will the deferral be included in a rate case within a reasonable time? Yes. Under the spend/defer/recover model, the Company is incented to seek recovery of the deferred costs through a rate case in a timely manner.

7. Will the deferral help advance any technological improvement, modernization, or compliance with applicable law or regulation? Yes. As noted above and in Company Witness Bednarcik's direct testimony, the deferral will effectuate compliance with the federal CCR Rule.

8. Will the cost being deferred ultimately create customer savings or operational benefits from what would otherwise occur absent the expenditure? Yes. As discussed in the Company's response to guidance (3), the variability of annual coal expenditures makes it difficult to accurately reflect an ongoing amount in rates, resulting in the risk that the amount set in rates would be too high or too low. By being permitted to continue deferring ongoing coal ash expenditures and to seek recovery in future rate cases, the Company's ability to recover costs is limited to the return of its coal ash basin compliance costs plus carrying costs. Continuation of the deferral also provides the Commission and parties – including the ORS – the ability to review the spend and the Company's actions for prudence with full opportunity for discovery and transparency as occurs in a rate case.

In addition to addressing the eight guidelines above, the Deferral Order directs utilities requesting a deferral to include an estimated impact on revenue and rates and an analysis of the costs and benefits resulting from the request, including an evaluation of the effects of a deferral compared to recovery through alternative means. As explained above, the financial impact to the Company of denying the deferral of coal ash costs is an annual 90-basis point reduction in DEC's actual return on equity results. Absent the ongoing deferral, under traditional ratemaking the coal ash compliance costs incurred during the test year would need to be included in rates as representative of ongoing costs. Adding back the deferred test year costs for coal ash compliance would increase the revenue requirement in this case for expenses of $49 million per Jiggetts Direct Exhibit 4, SC4010-2 ARO Deferral. This translates to an approximate increase in customer rates of an additional 2.35% over and above what the Company has already requested in this proceeding. Accordingly, if the deferral request is denied, the Company requests that it be allowed to include the $49 million in its revenue requirement in this case since the Company will continue to incur these environmental compliance costs. That said, as explained by Witness Bauer, implementing a contemporaneous recovery mechanism would have a negative impact on the Company's FFO/Debt credit metric while also increasing customer bills. This is further evidence supporting the continuation of the accounting deferral treatment of environmental compliance costs as the Company's recommended method to recover these costs.

Q. PLEASE DESCRIBE THE ACCOUNTING DEFERRAL REQUEST RELATING TO NUCLEAR PRODUCTION TAX CREDITS UNDER THE IRA.

A. DEC is actively pursuing opportunities under the IRA to secure benefits for our customers while minimizing our costs, especially as it pertains to the nuclear production tax credit ("NPTC"). The direct testimony of Witness John Panizza describes the NPTC. DEC has not included any IRA tax impacts in the case, including any potential NPTC impacts, because there remains a great deal of uncertainty with respect to the impacts associated with the IRA tax benefits; these impacts are outside of the Company's control, and the impacts will not be known and measurable by the close of the hearing in this case. While the Company cannot estimate the exact level with certainty, we do expect to receive significant benefits for nuclear production tax credits in the future, as described in Witness Panizza's testimony. Therefore, the Company requests the Commission allow the Company to use the cash benefits obtained from either the sale or utilization of NPTCs, net of costs associated with obtaining and maximizing the value of the NPTCs, to offset future environmental compliance and Grid Improvement Plan costs (i.e., costs incurred after December 31, 2023), with any remaining excess benefits deferred to a regulatory liability account to be addressed in a future general rate case proceeding. Using these future benefits from NPTCs to offset these balances saves customers money by reducing or eliminating the deferred balances thereby practically reducing or eliminating the carrying costs the Company would otherwise accrue on those balances during the deferral period, which the ORS has repeatedly raised in prior proceedings as one of their core issues with deferral treatment.[2] The accounting order will not preclude the Commission or other parties from addressing the reasonableness and prudency of the Company's expenditures for either coal ash compliance or the Grid Improvement Plan. Approval of this accounting request will not involve a change to any DEC rates at this time.

Q. IS THIS REQUEST A DEFERRAL THAT WOULD FALL UNDER THE DEFERRAL ORDER?

A. While the Company's request is to defer benefits instead of expenses, the Company has addressed the eight considerations for deferral in the subsequent section.

Q. CAN YOU PLEASE ADDRESS THE EIGHT CONSIDERATIONS WITH RESPECT TO THE NUCLEAR PRODUCTION TAX CREDIT BENEFITS THE COMPANY IS REQUESTING TO DEFER?

A. Yes.

1. Are the benefits sought to be deferred significant to DEC?

Yes. While the magnitude of the NPTC benefits the Company will receive under the IRA cannot be measured with certainty at this time for inclusion in the revenue requirement as discussed by Witness Panizza, the Company expects the benefits to be material to the Company and thus to its customers. Deferral will allow the Company to give customers the full benefits of pursuing these

[2] *See, e.g.*, Direct Testimony of Anthony D. Briseno, filed December 1, 2022 in Docket No. 2022-254-E; South Carolina Office of Regulatory Staff Comments, filed September 6, 2019 in Docket No. 2019-233-A; Direct Testimony of Zachary J. Payne, filed March 4, 2019 in Docket No. 2018-318-E; Direct Testimony of Zachary J. Payne, filed February 26, 2019 in Docket No. 2018-319-E.

government funding opportunities, net of costs associated with obtaining and maximizing the value of the tax credits.

2. Is the expense (in this case benefit) necessary, could not have been reasonably anticipated by DEC, or is beyond DEC's control? Yes. In this case, the Company is seeking to defer NPTC benefits, net of costs associated with obtaining and maximizing their value, to be returned to customers. As discussed in the testimony of Witness Panizza, there remains a lot of uncertainty regarding the precise calculation of the NPTC benefits the Company expects to realize; nevertheless, the Company anticipates that the benefits, net of costs reasonably incurred in order to achieve them, will be significant. Authorizing deferral of NPTCs, net of costs associated with obtaining and maximizing their value, would allow customers to receive the full benefit of these credits.

3. Can complete recovery of the expense (in this case benefit) be captured through traditional ratemaking? No. The benefit cannot be fully captured through traditional ratemaking. No NPTC benefits were received in the Test Period for this case and therefore are not included within the revenue requirement in this case. The amounts of the NPTC benefits are also not certain at this time as additional guidance is pending from the government; therefore, benefits have not been included in a pro forma adjustment in this case. Additionally, the amount of NPTCs will be dependent upon amounts produced by the nuclear generation sites and will also be dependent upon whether the credits are transferred to other parties, etc.

4. Is the expense (benefit) currently included in rates? No. Due to the reasons explained in guidance (3) above, the Company's revenue requirement does not reflect any NPTC benefits associated with the IRA.

5. Does the deferral result in procedural efficiency? Yes. As currently proposed, the Company would first use the benefits associated with NPTCs under the IRA, net of costs associated with obtaining and maximizing the value of these benefits, to offset future costs associated with coal ash compliance and the grid improvement plan and then defer to a regulatory liability any remaining benefits to be considered in a future rate case. Deferral of the NPTC benefits will allow the ORS and the Commission the opportunity to review and audit the benefits allocated to South Carolina customers at the same time it assesses the recovery of coal ash costs and the Grid Improvement Plan in a future rate proceeding. If coal ash and Grid Improvement Plan costs exceed this regulatory liability, South Carolina customers will see the benefit of a reduced revenue requirement because the costs have been offset by NPTC benefits. In the event benefits in the regulatory liability account exceed coal ash and grid improvement plan costs, the excess benefits can be returned to customers.

6. Will the deferral be included in a rate case within a reasonable time? Yes. The Company is incented to seek return of the deferred costs through a rate case in a timely manner. Due to investments that the Company will need to make outside of grid improvements and coal ash compliance, the Company will likely need to file routine rate cases, and as such these should be addressed within a reasonable period of time.

7. Will the deferral help advance any technological improvement, modernization, or compliance with applicable law or regulation? While the deferral does not directly address these items, it will enable the Company to maximize the return of these benefits to customers by offsetting costs the Company is incurring to advance technological improvement, modernization, and environmental compliance. As proposed, deferred benefits will first be used to cover costs associated with coal ash compliance, which are required by federal regulations, and grid improvement plan expenditures, which are driven by modernization and technological advancement.

8. Will the cost (benefit) being deferred ultimately create customer savings or operational benefits from what would otherwise occur absent the expenditure? Yes. As discussed in the Company's response to guidance (1-3), NPTCs are expected to produce customer benefits; however, the exact amounts cannot be determined at this time. Establishment of the deferral will allow the Company to track and capture the actual benefits associated with NPTCs, net of costs associated with obtaining and maximizing the value of these benefits, to be returned to customers in a future ratemaking proceeding. Absent the deferral, the Company will not have a method to return any benefits experienced between ratemaking proceedings to customers. Further, utilizing the benefits from the NPTCs to offset ongoing deferred costs will result in lower costs to customers by practically reducing or eliminating carrying costs the Company will otherwise incur during the deferral period for the deferred investments.

Due to the uncertainty as to the amount of benefits, as explained above and in the testimony of Witness Panizza, the Company is unable to calculate the precise impact (in this case, decrease) on revenue or rates. Nevertheless, as described in the testimony of Witness Panizza, DEC believes that the low-cost operational performance of its nuclear fleet will provide substantial NPTC benefits, up to several hundred million dollars a year on an enterprise and system basis. However, it is not necessary to perform a quantification to show that the benefits of this proposal (deferring benefits to offset future costs, then be returned to customers) far outweigh any costs of maximizing the NPTCs. Moreover, offsetting future coal ash compliance costs and Grid Improvement Plan costs would reduce carrying costs as indicated above. Finally, absent the offset and deferral, there would be no way to flow these benefits back to customers through alternative means as there were no NPTCs during the Test Period, and the future benefits are not known and measurable for purposes of making a pro forma adjustment.

VIII. <u>CONCLUSION</u>

Q. IN YOUR VIEW, HAS DEC CALCULATED OPERATING EXPENSES AND RATE BASE IN THIS PROCEEDING IN ACCORDANCE WITH THE PROVISIONS OF S.C. CODE ANN. SECTIONS 58-27-820 AND 58-27-870 AND 26 S.C. CODE REGS. 103-303 AND 103-823?

A. Yes. The Company generally experienced a level of ordinary business expenses and rate base that was reasonable and necessary to provide safe and reliable electric service to its customers for the twelve-month period ending December 31, 2022. In order to meet the requirements of S.C. Code Ann. Sections 58-27-820 and 58-27-870 and 26 S.C. Code Regs. 103-103 and 103-823, the actual operating expenses and rate base levels for the Test Period were adjusted for known and measurable changes as described above.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.